BUILDER

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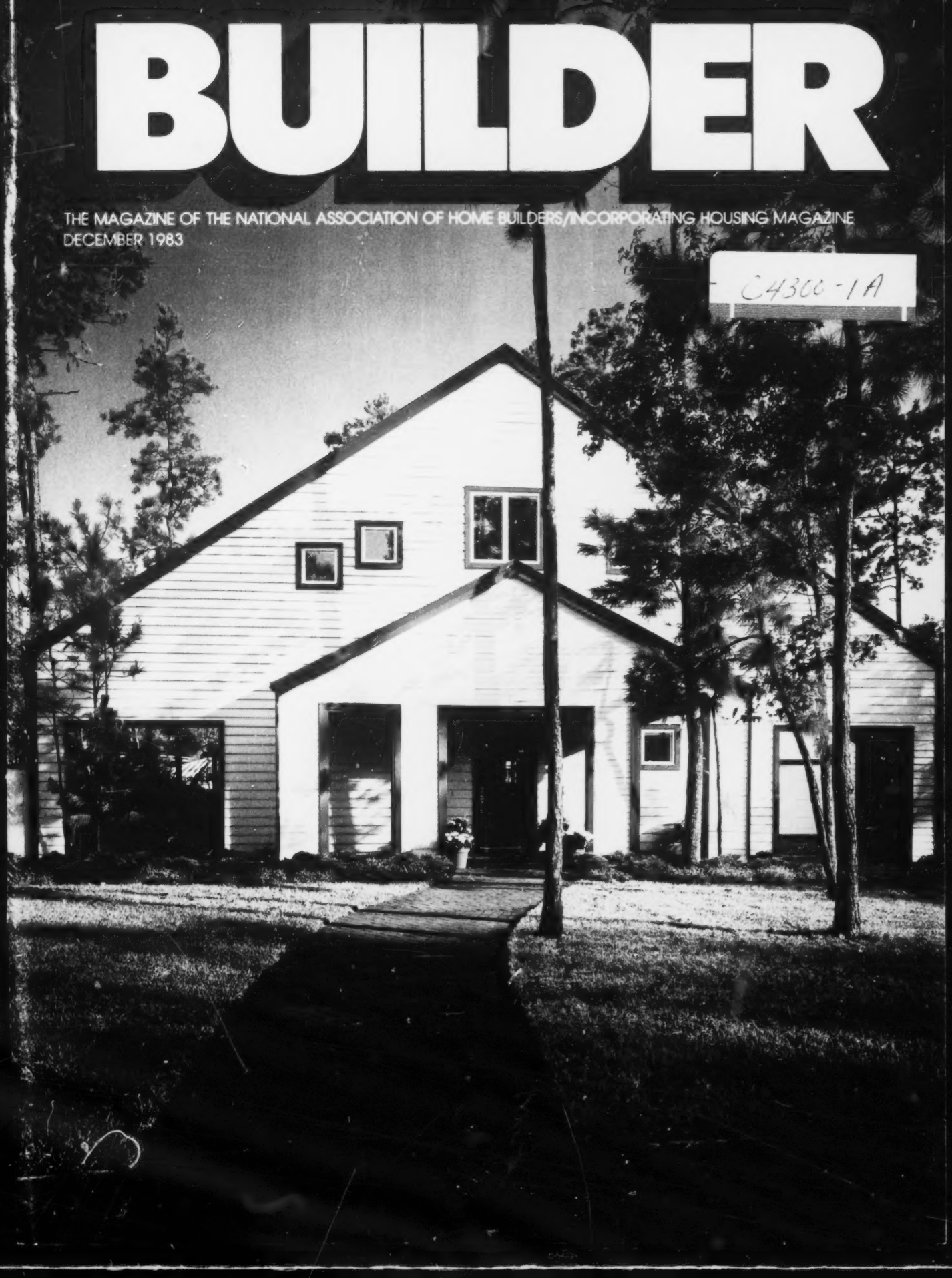

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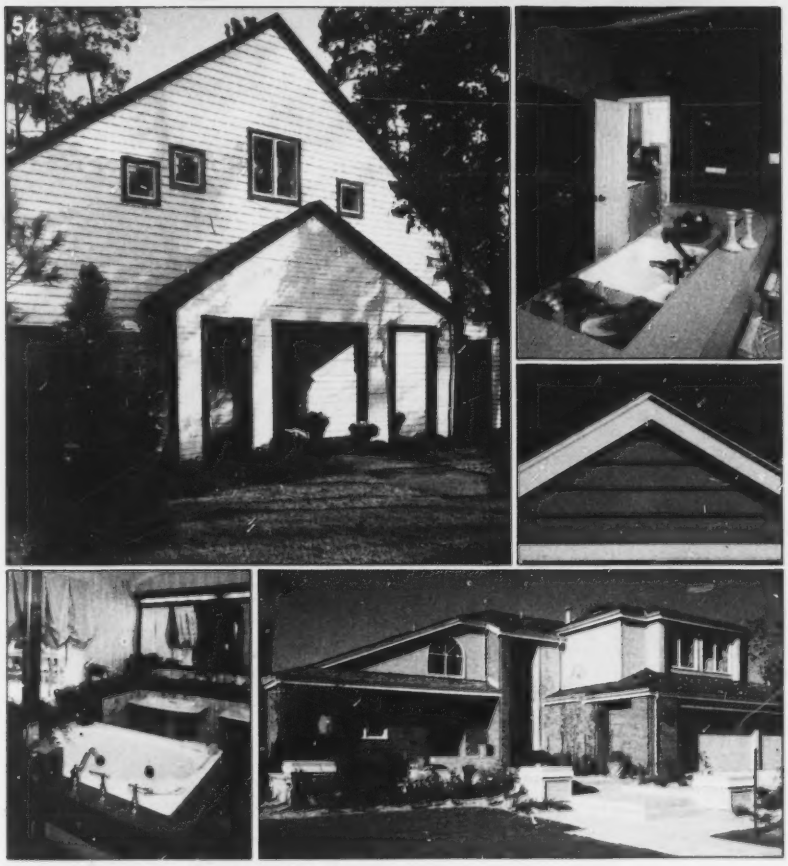

54—THE NEW AMERICAN HOME

It's an idea house, a house built to showcase innovative design, new building products and efficient construction techniques. It is not a far-fetched house of the future. In fact, it was always meant to be an appealing, affordable house suitable for today's most active group of new home buyers: young, moderate-income couples. A joint venture of BUILDER, *Good Housekeeping* and the National Council of the Housing Industry (NCHI), the house will be open for tours during the NAHB convention in Houston in January.

(Cover: The New American Home. Photo: Copyright Robb Miller 1983.)

76—MOVING UP

High interest rates, high housing prices and a lousy resale market killed the move-up market. But now with the recovery moving along, the move-up market again is showing signs of life. Case studies of three higher-priced projects that are doing very well indeed.

ECONOMY

FORECASTERS SEE FLAT BUT EVEN YEAR AHEAD

Next year will be reasonably good for housing, but high interest rates will prevent starts from rising much, if any, above 1983's estimated 1.68 million level.

That was the consensus of economists and housing analysts at NAHB's semiannual residential construction forecast conference held in late October.

While total housing starts next year are expected to be flat at about 1.7 million, NAHB estimates that single-family starts will rise 7 percent to 1.14 million units, although multifamily starts will decline 11 percent to 549,000.

Mortgage rates are expected to be relatively high but stable throughout next year, averaging 13.5 percent.

Despite continued high rates, bulging deposits at thrift institutions may pressure lenders into making more long-term, fixed-rate mortgages, according to Leonard Santow, a partner in the investment consulting firm Griggs & Santow, Inc., New York City.

This situation, the increasing attractiveness of below-market adjustable rate mortgages and the growth of financing alternatives such as builder bonds are some reasons for the expected modest rise in single-family starts.

The falloff in multifamily starts anticipated by NAHB is due to the softening condo market and overbuilding and rising vacancy rates in the apartment rental sector, particularly in the Southwest.

Regionally, the South and the West will continue to produce a large proportion of the nation's housing. Texas, California and Florida together will account for an estimated 37 percent of all starts in 1984.

Nevertheless, starts are expected to decline by 5.7 percent in the South and 3 percent in the West while rising 18 percent in both the Northeast and North Central regions.

The forecasters expect 1984 to be the peak of the current housing cycle because they all see trouble brewing in 1985. The cause: Mammoth federal deficits, which are expected to collide with rising private sector borrowing needs, will push up interest rates.

NAHB's 1984 HOUSING STARTS FORECAST
(annual rates, thousands of units)

	1983	1984	Percent change
U.S. Total	**1,683**	**1,692**	**+ 0.005**
Single-family	1,068	1,144	+ 7
Multifamily	615	549	−11
Northeast	**174**	**206**	**+18**
Single-family	123	145	+18
Multifamily	51	60	+19
North Central	**226**	**267**	**+18**
Single-family	158	185	+17
Multifamily	68	82	+21
South	**915**	**863**	**− 5.7**
Single-family	563	584	+ 4
Multifamily	351	279	−21
West	**370**	**357**	**− 3**
Single-family	224	230	+ 3
Multifamily	145	128	−12

Note: Figures have been rounded to nearest whole number.
Source: NAHB Forecasting Service, Bureau of the Census

"The deficit should not be a big problem in the next six to nine months because corporate borrowing won't be big," said Lawrence Chimerine, chairman and chief economist of Chase Econometrics, an economic forecasting firm based near Philadelphia.

"But interest rates could rise sharply—3 to 5 percentage points—in 1985 if deficits are not reduced significantly."

In answer to a question from the audience of builders and building materials manufacturers, Chimerine predicted that the chance of positive action on the deficit will be less if President Reagan is reelected.

"Reagan wants to cut the deficit by reducing nondefense spending, and Congress will want to do it by increasing taxes," he said. "That could lead to a stalemate, which would delay any action on the deficit."

Although a credit collision is not expected next year, Chimerine said rates will remain relatively high in part because "we're past the good inflation numbers. Inflation is back to 4 to 5 percent, and will rise to 5 to 6 percent next year," he said.

On the question of inflation—specifically how much the Federal Reserve Board will tolerate before tightening the monetary screws—Fed Vice Chairman Preston Martin told the group he thinks 5 percent is too high.

"I don't know if we can live with that," Martin said, but he added, "We have the feeling inflation won't go up much."

Most of the forecasters believe current Fed policy is relatively restrictive for this stage in a recovery, a major reason short-term rates are so high. But most felt the Fed would not tighten further next year.

Martin, of course, did not tip the Fed's hand, but he emphasized that the Fed will not base its actions solely on whether the money supply goes up or down.

"That's simplistic, won't work, and we're not going to do it," Martin declared. "We cannot disregard what's happening in the economy. That could be destructive to the recovery."

Nevertheless, Martin left the door open to greater reliance on M-1 (the amount of cash and money in transaction accounts) in determining monetary policy.

Since last fall the Fed has downplayed the importance of M-1 because it has gyrated so much in response to all the changes produced by deregulation of depository institutions. But according to Martin, "If M-1's behavior becomes more predictable, it will be used more by the Fed."—C.A.

FACTORY-BUILT

JAPAN POISED TO INVADE U.S. HOUSING INDUSTRY

Japanese housing manufacturers appear to be warming up to do to the American housing industry what Toyota and Sony already have done to the American automobile and electronics industries.

During the last few months, sources have reported that at least one and maybe three of Japan's largest housing producers are searching

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